

The accounting officer  
Thembisile Hani Local Municipality  
Private Bag X4041  
Empumalanga  
0458

30 November 2016

Reference: 18004REG15/16

Dear Sir

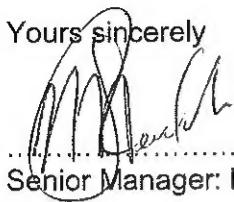
**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thembisile Hani Local Municipality for the year ended 30 June 2016**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



.....  
Senior Manager: Mpumalanga

Enquiries: Daniel Radebe  
Telephone: (013) 756 0800  
Fax: (013) 756 0879

**Acknowledgement of receipt by management:**

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Received by

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Date

# **Auditor's report**

Thembisile Hani Local Municipality

30 June 2016

## **Basis for qualified opinion**

### **Property, plant and equipment**

6. The financial statements were materially misstated, as the municipality did not recognise some of the land it owns, contrary to GRAP 17, *Property, plant and equipment*. Furthermore, buildings was understated as a result of the incorrect calculation of depreciation. The effect on the financial statements was that land and buildings was understated by R92 823 382, the accumulated surplus was understated by R82 932 072, and depreciation was overstated by R9 891 309. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.
7. The municipality did not have adequate systems to properly record assets and maintain accurate records to account for property, plant and equipment in accordance with GRAP 17. Infrastructure assets was overstated by R22 466 323 as a result of the incorrect calculation of depreciation as well as the opening balance. The effect on the financial statements was that infrastructure assets was overstated by R22 466 323, the accumulated surplus was overstated by R10 905 065, and depreciation was overstated R11 561 258. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the additions to infrastructure assets, as the municipality could not provide supporting documents in this regard.
8. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure assets of R1 881 877 996 disclosed in note 3 to the financial statements.

### **Commitments**

9. The municipality did not have adequate systems to account for commitments in accordance with GRAP 17, *Property, plant and equipment*. Consequently, commitments of R76 620 063 disclosed in note 36 to the financial statements was understated by R41 557 110.

### **Qualified opinion**

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Thembisile Hani Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

12. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the year ended 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information.
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following development priority:
  - Basic service delivery and infrastructure development

## **Additional matters**

23. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priority, I draw attention to the following matters:

### **Achievement of planned targets**

24. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year.

### **Adjustment of material misstatements**

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for basic service delivery and infrastructure. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Compliance with legislation**

26. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Annual financial statements**

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

## Financial and performance management

38. A proper record management system had still not been adequately implemented to maintain documents and records such as registers and schedules supporting the financial statements as well as information relating to the verification and reporting of actual performance information.
39. The daily and monthly reconciliation of reported financial information was not adequate.
40. The financial statements and the annual performance report contained numerous misstatements that were subsequently corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework and performance information.

## Governance

41. Although a risk assessment was done, the numerous misstatements identified indicate that the risk assessment was not comprehensive enough to identify deficiencies in internal controls.
42. The internal audit unit assisted management in maintaining efficient and effective controls and by developing recommendations. However, it remains the responsibility of management to implement those recommendations as well as the corrective actions agreed upon by management.

*Auditor General*  
Mbombela

30 November 2016



*Auditing to build public confidence*